

## Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-10 ISO-00 AID-20 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10

SS-20 STR-08 CEA-02 L-03 H-03 DRC-01 /170 W

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P R 240940Z OCT 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7691

INFO AMEMBASSY ISLAMABAD

AMEMBASSY DACCA

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY OTTAWA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY OSLO

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

C O N F I D E N T I A L TOKYO 13810

E.O. 11652: GDS

TAGS: EFIN, PK, BD, JA

SUBJ: PAKISTAN-BANGLADESH DEBT

REF: A. STATE 208335; B. STATE 208687

SUMMARY: IN DISCUSSION WITH EMBASSY RE PAKISTAN-BANGLADESH DEBT, FONOFF REPS EXPRESSED CONCERN OVER PHASE QTE DISPUTED DEBTS UNQTE, ASSERTED IT PREMATURE TO CONSIDER PAKISTAN DEBT RESCHEDULING BEFORE CONCLUDING SHORT TERM RESCHEDULING AND NEGOTIATIONS WITH BANGLADESH OVER ITS LIABILITIES, INDICATED PREFERENCE FOR OPTION 3 AND CLEAR REJECTION OF OPTION 2, AND  
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RAISED SEVERAL QUESTIONS. FONOFF ALSO CONCERNED RE

IBRD VIEW THAT BANGLADESH ASSUMPTION OF LIABILITIES  
NEED NOT PRECEDE AGREEMENT ON DEBT RESCHEDULING. END  
SUMMARY.

1. IN VIEW UNAVAILABILITY OF MIKANAGI, DIRECTOR GENERAL,  
ECONOMIC COOPERATION BUREAU, FONOFF, ECON/COUNS MADE  
APPROACH TO KIKUCHI, DEPUTY DIRECTOR GENERAL OF BUREAU,  
AS INSTRUCTED REFTELS. WATANABE, DEPUTY HEAD, AND TAKENAKA  
(OFFICER IN CHARGE OF PAKISTAN AND BANGLADESH MATTERS)  
OF FIRST ECONOMIC COOPERATION DIVISION (LOANS), WERE ALSO  
PRESENT.

2. FOLLOWING ECON/COUNS PRESENTATION, KIKUCHI EXPRESSED  
CONCERN RE USE PHRASE QTE DISPUTED DEBTS UNQTE (PARA 4,  
REF B). HE SAID THAT PAKISTAN MUST ACKNOWLEDGE LIABILITY  
FOR ALL DEBTS, EXCEPT THOSE ASSUMED BY BANGLADESH (PROJECTS  
VISIBLY LOCATED IN BANGLADESH) BEYOND JULY 1, 1974 AS PRE-  
CONDITION FOR CONSIDERATION OF ANY RESCHEDULING. AS LONG AS  
PAKISTAN DISPUTES ANY PORTION OF ITS LIABILITIES, NO ACTION  
CAN BE TAKEN ON RESCHEDULING.

3. FONOFF REPS THEN STATED THAT GOJ NOT IN POSITION AT  
PRESENT TIME TO DEAL WITH DISPUTED DEBT. THEY ASSERTED  
THAT AGREEMENT WAS REACHED AT JULY 31 DONORS' MEETING TO DEAL  
WITH RESCHEDULING OF SHORT TERM DEBT (UP TO JULY  
1, 1974), LIABILITY FOR PROJECTS IN BANGLADESH,  
AND RESCHEDULING OF PAKISTANI DEBTS AFTER JULY 1, 1974,  
IN THAT ORDER. GOJ IS NOW WORKING ON SHORT TERM DEBT  
RESCHEDULING WITH PAKISTAN. FOLLOWING DISCUSSIONS  
WITH PRIME MINISTER RAHMAN, GOJ EXPECTS MOVE AHEAD WITH  
DISCUSSIONS WITH BANGLADESH ON QUESTION OF LIABILITY FOR  
PROJECTS LOCATED IN BANGLADESH ONLY AFTER THOSE MATTERS  
SETTLED, GOJ WILL DISCUSS WITH PAKISTAN ITS LIABILITY  
FOR DEBTS AFTER JULY 1, 1974.

4. TURNING TO OPTIONS CONTAINED PARA 4, REF B, KIKUCHI  
MADE FOLLOWING REMARKS:

A. THERE IS NO DOUBT GOP WILL PREFER OPTION 2. HOWEVER,  
THIS OPTION IS OUT OF THE QUESTION FOR GOJ. IT CANNOT LEG-  
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ALLY WRITE OFF DEBTS; ALL IT CAN DO, WITH DIET APPROVAL, IS  
GRANT RESCHEDULING AT NO INTEREST. KIKUCHI SAID HE CON-  
SIDERED IT UNFORTUNATE THAT SUCH OPTION HAD BEEN DISCUSSED  
AT ALL BECAUSE GOP WOULD QTE JUMP AT IT UNQTE AND RESULT  
WOULD BE GOP PRESSURE ON DONORS TO OFFER  
DEBT WRITE-OFF.

B. OPTION 3 SEEMS MOST DESIRABLE, AND IT IS LIKELY

THAT IT WILL APPEAL TO BOTH PAKISTAN AND BANGLADESH. GOJ IS AJXIOUS TO MOVE FROM SHORT TERM RESCHEDULING TO LONG TERM RESCHEDULING. HOWEVER, SINCE NEGOTIATIONS ON LATTER WILL TAKE TIME, IT MAY BE NECESSARY TO GO THROUGH ANOTHER SHORT TERM RESCHEDULING EXERCISE.

C. IN RESPONSE TO QUESTION WHETHER HE HAD ANY OTHER APPROACHES IN MIND (PARA 7-4, REF B), KIKUCHI REPEATED HIS PREFERENCE FOR OPTION 3.

5. FONOFF REPS CLEARLY UNHAPPY THAT USG HAD DISCUSSED OPTIONS WITH GOP PRIOR TO CONSULTATIONS WITH OTHER DONORS AND QUESTIONED NEED TO PROCEED AS QUICKLY AS WE HAVE (SEE PARA 3 ABOVE).

6. MOVING TO QUESTION OF ASSUMPTION OF DEBTS BY BANGLADESH, KIKUCHI EXPRESSED CONCERN RE APPARENT MISUNDERSTANDING AMONG DONORS. GOJ HAD UNDERSTOOD THAT WHEN BANGLADESH AGREED IN PRINCIPLE TO ASSUME LIABILITY FOR PROJECTS VISIBLY LOCATED IN BANGLADESH, ASSUMPTION OF LIABILITY WOULD PRECEDE QTE GENEROUS RESCHEDULING UNQTE BY DONORS. HOWEVER, IBRD REP DIAMOND TOLD KIKUCHI WITHIN PAST FEW DAYS THAT BANGLADESH DEBT WOULD BE RESCHEDULED EVEN BEFORE BANGLADESH HAD ASSUMED LEGAL LIABILITY AND THAT OTHER DONORS SHARED THIS UNDERSTANDING. GOJ CONSIDERS LEGAL POINT THAT THERE CAN BE NO RESCHEDULING PRIOR TO ASSUMPTION OF LIABILITY TO BE IMPORTANT. GOJ WOULD APPRECIATE ADVICE RE USG POSITION THIS POINT. GOJ FEELS IT NEEDS TO DISCUSS THIS QUESTION FURTHER WITH USG AND OTHER DONORS, AS IT WILL BE TO DISADVANTAGE OF DONORS IF THEY APPROACH NEGOTIATIONS WITH BANGLADESH BASED ON DIFFERENT ASSUMPTIONS.

7. FINALLY, FONOFF REPS RAISED SEVERAL QUESTIONS RELATING  
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TO PAKISTAN-BANGLADESH DEBT:

A. FONOFF WOULD APPRECIATE EXPLANATION OF TERM QTE NON-DEFAULT RESCHEDULING UNQTE (PARA 6 REF B).

B. CERTAIN PROJECTS LOCATED IN BANGLADESH WERE FINANCED BY, INTER ALIA, USG AND GOJ LOANS TO A PAKISTANI FINANCIAL INSTITUTION (PICIC) WHICH RELENT THE LOANED FUNDS TO IMPLEMENT PROJECTS IN BANGLADESH. GOJ UNDERSTANDS IBRD AND ABD BOTH CONSIDER THESE LOANS TO BE PROJECT LOANS, BUT THAT USG CONSIDERS THEM TO BE COMMODITY LOANS. FONOFF WOULD APPRECIATE CLARIFICATION USG THINKING THIS POINT.

C. FONOFF WOULD LIKE TO KNOW WHETHER A LIST OF

DEBTS CONSIDERED TO BE BANGLADESH DEBTS HAS BEEN SUBMITTED  
BY USG TO BDG.

D. FONOFF WOULD LIKE TO KNOW WHETHER USG HAD  
REACHED AGREEMENT ON SHORT TERM RESCHEDULING WITH PAKISTAN.

8. ACTION REQUESTED: REPLIES TO FONOFF QUESTIONS CONTAINED  
PARAS 6 AND 7.  
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